

**Statement of James Balsillie,
Chairman and Co-Chief Executive Officer,
Research In Motion
Before the
Subcommittee on Courts, the Internet and Intellectual Property of
The House Committee on the Judiciary
On
“Patent Quality”
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Introduction

Chairman Smith, Ranking Member Berman and Members of the Subcommittee, my name is Jim Balsillie and I am Chairman and Co-Chief Executive Officer of Research In Motion. I am pleased to appear before you today to speak on the issue of “Patent Quality,” and am grateful for the opportunity to share with you RIM’s experience with the United States patent system.

Research In Motion (RIM) was founded in 1984 and is a leading developer of innovative wireless solutions for the worldwide mobile communications market. Through the development of integrated hardware, software and services that support multiple wireless network standards, RIM provides platforms and solutions for seamless access to time-sensitive information including email, phone, Internet and intranet-based

applications. RIM's award-winning BlackBerry products and services are used by tens of thousands of corporate and government organizations around the world.

RIM technology also enables a broad array of third party developers and manufacturers to enhance their products and services with wireless connectivity to data. RIM operates offices in North America, Europe and Asia Pacific and has approximately 5 million subscribers in over sixty countries. Our largest market is the United States, which accounts for more than half of RIM's revenues. Our biggest customer in the United States is the federal government. RIM is proud to serve the Department of Defense, the Department of Homeland Security and the U.S. Congress, just to name a few of our valued federal customers.

As the Members of the Subcommittee are certainly aware, last month RIM paid \$612.5 million to settle a patent lawsuit brought by patent holding company, NTP. Despite clear evidence that the Patent Office had rejected the NTP patents and was very likely to declare these patents invalid, RIM was effectively forced to pay one of the largest settlements in U.S. history in order to end NTP's highly publicized threats and the associated uncertainty felt by RIM's U.S. partners and customers.

Underlying virtually every debate about patent laws are two distinct views of the nature of patents. Simply put, are patents an absolute property right, or a property right that must be construed in the context of its Constitutional objectives?

The latter point of view is not new. The Supreme Court in *Graham v John Deere Co.* reiterated Thomas Jefferson's conclusion that the primary objective of intellectual property is to promote the Country's social and economic benefits and not to protect inventors' so-called "natural rights." In other words, patent rights are granted as a means

to an end, and not the end itself. If the patent right is asserted in a manner that does not promote social and economic benefit, then it has become unmoored from its Constitutional foundation.

Many, however, are of the view that, because the Patent Act grants the ‘right to exclude,’ in order to give effect to this right, patentees must have virtually automatic injunctive relief for a breach of their rights. Those that hold this view also generally believe that patentees ought to be free to seek whatever compensation they are able to extract for their invention – even if that compensation bears no correlation to the value afforded by the invention in their patent.

In the end, Congress must choose which characterization of patent rights better reflects its objectives for patent law and the Constitutional mandate that granted patent rights must promote the useful arts. If nothing else, RIM’s experience in the NTP case demonstrates that there are significant undesirable social and economic costs contrary to promoting the useful Arts when patents are treated as an absolute property right. We hope that Congress will consider these costs carefully in deciding which is the appropriate characterization of patent rights.

We understand and appreciate the concerns that Pharmaceutical, biotechnology and some independent inventors have expressed regarding changes to patent laws. We continue to firmly believe, however, that the concerns raised by the technology sector can be addressed without harming these other sectors. By appearing before you today, it is my sincere hope that we are helping to advance meaningful patent law reform, thus helping to assure that no other company experiences what RIM endured over the past five

years. I believe that RIM's experience will prove instructive for all who care about innovation, competitiveness and free enterprise.

Role of the U.S. Patent and Trademark Office

The NTP case raises many questions, but there are a couple that are particularly relevant to the scope of this hearing. We should first ask: "What is the role of the U.S. Patent and Trademark Office (PTO) in the patent system and how can the quality of patents be improved?"

Reexamination Proceedings

Perhaps the most puzzling thing for those who followed the NTP case is the role of the patent reexamination process in pending litigation. If the patent system is to function properly, policymakers must clearly define what role the reexamination of patents should play in the patent system and what impact they should have on any court proceeding.

The Patent Office has realistically acknowledged that, with 300,000 applications per year, mistakes are inevitable and the easiest way to deal with this problem in the short term is to focus their limited resources on improving the processes to reexamine patents after they have issued. While historically the Patent Office reexamination process has been criticized, in 2005, the Patent Office established an elite group of examiners to complete reexaminations with the 'special dispatch' required by Statute and its own procedures. According to these procedures, priority is to be given to patents that are in litigation.

RIM commends the Patent Office for implementing these much needed changes in the reexamination process. However, in our case, this initiative came too late. If these new procedures and commitment to special dispatch had been implemented earlier, the first office actions for the reexaminations, which began in December 2002, would have issued by April 2003, several months before the district court ruled on NTP's first injunction request. Instead, the first office actions did not start to issue until March of 2005.

All of the five asserted NTP patents were completely rejected by the PTO in multiple Office Actions upon reexamination. At the time of the hearing on the injunction on February 24 of this year, two of the three patents remaining in suit had final office actions issued that rejected all of the claims on at least three grounds each. The remaining patent is in *inter partes* reexamination in which an action closing prosecution (substantially the same as a final office action in the *ex parte* reexams) had issued rejecting all claims in the '592 patent on at least four grounds each, including anticipation of each claim by RIM's own technology – i.e., a determination that RIM invented what NTP was trying to claim for itself.

Even with the Patent Office issuing these rulings, the District Court hearing the case was unmoved. Although the Court did not formally enter a ruling at that time, the Judge's comments during the proceedings emphatically suggested that he viewed the final office actions as irrelevant to his decision – in spite of the fact that (1) the liability ruling on which injunctive relief would be granted was based on deference given during trial to the Patent Office's expertise in initially granting the patents, (2) the PTO specifically indicated in its office actions during reexam that it was seeking to address the

concerns raised by the Court about reexamination timing, and (3) several patent practitioners have noted the exceptional quality of these office actions (as compared to the original examination to which deference was given at trial even though no substantive examination was apparent). Countless media articles commented on the Court's indifference to the PTO's rejections, including a recent article in Newsweek magazine that compared the NTP case to a judge in a murder case pondering execution while ignoring new DNA evidence.

As this Subcommittee contemplates patent reform, RIM respectfully suggests that this circumstance should be addressed and that clarity be given as to the relevance of reexamination proceedings, possibly by providing formal guidance to the courts on what deference to give the Patent Office's reexamination proceedings during its different stages as the Court weighs the procedural options in litigation (e.g., stay the litigation or limit injunctive relief pending the outcome of the reexamination).

Grant of Patents

It is generally agreed that the Patent Office does not have the resources it needs to effectively review the more than 300,000 applications it receives each year. Concerns have been raised both about the length of time it takes to process a patent application, and the quality of patents that ultimately issue, (e.g. broad and vague specifications, broad and inconsistent claim language, 'obviousness' of claimed inventions, patents seeking to claim technology that already exists in the public domain, etc.).

Few would contest that the Patent Office is overburdened. Last year, Patent Commissioner John Doll was reported saying, "When you've got 1.3 million cases in

backlog, and it's taking [four to six] years to take a first office action, you've got to ask the question: Is the patent system still actually working, or are we just stamping numbers on the applications as they come through?"

Commissioner Doll is not alone. In a survey by the Intellectual Property Owners Association of the nation's top patent lawyers, over half rated the quality of patents issued in the U.S. today as less than satisfactory or poor. Unless the Patent Office gets more resources, including additional qualified examiners, and is able to reduce the demands on its existing resources, the future may not be much better. According to the survey, over two-thirds of respondents said they thought the patent process would get longer, not shorter, over the next three years. And nearly three-quarters said they thought they would be spending more time, not less, on patent litigation over the coming years.

Limitation on Number of Claims

One of the ways to reduce the demands on the Patent Office's existing resources is to deter patentees from filing excessive numbers of claims in a patent. Why is the number of claims important? The Patent Office's recent figures suggest that the average number of claims in a patent is twenty-two. However, a small number of patentees file patents with many times this number of claims. For example, in the NTP case, NTP's eight patents had an average of 240 claims each, with one having 665 claims!

Patents with an excessive number of claims put a huge burden on the process and can compromise the quality of the patents issued. The analysis required to ensure that the language in a patent claim is unambiguous, properly disclosed in the patent, and not claiming known technology that is already in the public domain, is by its nature a time-

consuming one. Our understanding is that with the huge volume of patent applications, examiners' performance is assessed based on "counts" allotted to them when specified activities are completed. They receive the same number of "counts" for allowing a patent, regardless of the number of claims in that patent. Therefore, a patent with an excessively large number of claims may receive less scrutiny per claim and thus be more likely to issue without the substantive examination required to ensure high quality patents.

In our case, an NTP patent with 665 claims issued without a single documented office action. The prosecution history consists solely of references to undocumented meetings with the applicants. Indeed, Qualcomm noted in its request for a director-initiated reexamination of the NTP patents, "[w]e understand that the U.S. Examiner allowed over 1690 claims in five U.S. Patents...without ever issuing an action on the merits, with the exception of one double-patenting-only rejection on the '172 patent."

Excessive claims also result in considerable expense for parties defending actions by patent holders. Patent assertion companies may send letters to a large number of industry participants "suggesting" the desirability of a license, as NTP did to 47 companies, including RIM. The cost of a legal opinion as to the infringement/validity of claims increases with the number of claims. Further, the litigation cost and burden on the defendant of preparing a defense in court increases with the number of claims. For example, NTP sued RIM under all of its claims—over 1,900 in eight patents. Even though NTP ultimately reduced this number to 16 claims in five patents shortly before trial, the strain posed by the initial large number of claims had NTP's desired effect of

prejudicing RIM's ability to fully and fairly defend itself in the fast-paced litigation of the so-called "Rocket Docket."

The Patent Office recently has proposed rules changes to limit the initial review of a patent application to ten claims (which would generally include all independent claims) unless the applicant prepares an "examination support document" to reduce the workload of the examiner with respect to additional claims. RIM understands the Patent Office is encountering resistance to its proposed changes from the patent prosecution bar, but nonetheless encourages Congress to support the Patent Office's endeavors to address this problem.

Limit Continuations

Another issue of patent quality relates to the ability of patent holders to file multiple continuation applications during the life of the patent. In the aftermath of the NTP litigation, we have to ask if the ability to file continuations in this manner is consistent with the objectives of progressing innovation.

Why are continuations an issue? While there are bona fide reasons to file a continuation, patentees can (and do) use continuations to gain a monopoly over later innovations that they never envisioned. In particular, a continuation enables a patentee to draft new claims based on what it has learned about the products of others, years after the patentee initially filed its patent. Giving a patentee the ability to draft claims that copy the independently developed technology of another company—claims the patentee otherwise would not have thought of—and then use those copied claims to shut down or

hold-up that company is contrary to the most basic principles of fairness, and to the Constitutional mandate that patents must promote innovation.

In the case of NTP's suit, four of the five patents asserted at trial were continuations. After RIM's success on appeal, there were nine claims in three patents left at issue in the suit, all but one were from continuations. Six of these claims were in the '592 patent, which was a continuation filed more than eight years after NTP's first patent application. NTP filed the '592 patent application six months after RIM launched the BlackBerry solution, and NTP sued RIM on that patent the day after it issued. NTP plainly crafted the '592 patent claims to specifically cover what RIM already had independently developed. Indeed, in the reexamination of the '592 patent, the Patent Office determined that RIM – not NTP – was the first to invent what NTP claimed in its '592 Patent. Thus while RIM never copied the inventions in the NTP patents, NTP was able to aggressively use the current continuation process to copy RIM's ideas and seek an injunction that would prevent RIM from practicing what RIM invented.

Shortly after commencing its lawsuit, NTP refused RIM's request to explain precisely why it thought RIM infringed NTP's patents. NTP indicated that it did not matter whether or not RIM would be found to infringe in the initial trial, because NTP would simply draft another continuation based on what it learned at trial and sue RIM again. In fact, NTP even attempted to add over 32,000 claims in its reexamined patents, including claims intended to cover a design that RIM had confidentially disclosed to NTP.

The Patent Office is proposing restrictions on continuation practice by requiring a patentee to explain why the claims sought in a second or subsequent continuation could

not have been included in the original application or first continuation. RIM understands that these proposals are being resisted by the patent prosecution bar for a variety of reasons, some of which reflect valid concerns and a need for further clarification by the Patent Office, (for example the potential impact on existing patents drafted with a view to the continued availability of continuations, and the impact on divisional practice) and others that may simply reflect an interest in resisting any limit on the service they provide for their clients. RIM encourages Congress to support the Patent Office achieving reform in this area.

Remedies for Patentees

A second key question raised by the NTP case is: “Should there be limitations placed on the compensation available to patentees?” In order to ensure that the costs associated with patents do not outweigh the social and economic benefits afforded by them, restrictions must be in place to ensure that the compensation for a patent bears some reasonable relation to the actual value of the invention in that patent. Bringing a single wireless technology product to market and into the public hands is very risky and involves a myriad of complex technologies – e.g., display screen technology, RF technology, application software, etc. Such products typically involve hundreds of inventions as well as the development, production and distribution of hardware and software components. If there are no limits on the compensation each patentee can seek for each of the hundreds of inventions in those products, there may not be sufficient remaining resources to bring the product to market – or even to compensate other

patentees. In the NTP case, the Federal Circuit concluded that the patented invention in the NTP patents was the integration of an existing email system with a wireless system. The patents left it to RIM and others to design and build a two way handheld with desktop computer-like processing power, handheld email applications and operating system software, battery management systems, encryption software, special keyboards, communication protocols across the email and wireless system, redirector software and a relay infrastructure to route data between the email system and the wireless network – as well of course as the pre-existing email system and wireless network. In other words, the NTP patents did not come close to disclosing what is required to place in the hands of the public an actual, commercially viable and useful product. Inventor’s rights are important. But if the ultimate objective is to put technology into the hands of the public at a reasonable price, no single patentee should be able to demand compensation that far exceeds the value of its actual and specific contribution to the ultimate product or system.

Although some may ask “why can’t we let the marketplace take care of the problem”, the reality is that the current law on injunctions effectively gives patentees a gun, and the availability of a gun to one party in negotiations tends to skew the results that would otherwise naturally occur in the marketplace. Patentees are effectively able to use the Courts as a weapon to extort settlement amounts far greater than the reasonable market value of their patents.

Injunctive Relief

As was widely reported during the course of the NTP litigation, and especially in the last six months, RIM faced the very real possibility of an injunction being imposed by

the District Court by patents asserted by a patent assertion company.¹ NTP further leveraged this threat against RIM by hiring a public relations firm to instill fear amongst RIM's customers and shareholders by way of a publicity campaign, effectively threatening millions of American customers in order to put additional pressure on a public company to capitulate to excessive demands. Even with a solid workaround design, the uncertainty inherent in a threat of an injunction created some disruption of our business. An injunction was not warranted in the NTP case, and the possibility that an injunction was available in such circumstances demonstrates the need for reform. These circumstances include not only those discussed in this section, but the Patent Office reexaminations described earlier, in which the Patent Office had fully and finally rejected all the remaining claims in suit as unpatentable at the time of the hearing in the District Court in February 2006.

In the general case, injunctive relief for patent infringement 1) should not be virtually automatic, and 2) should not be made available where the patentee has clearly acknowledged it is seeking monetary compensation and is using the injunctive remedy as leverage solely to obtain money in excess of market value. Although there is a clear need to ensure that small inventors can receive reasonable compensation in a timely manner for their patents, these objectives can be accomplished without a virtually automatic injunction.

¹ A patent assertion company is an entity whose primary business is enforcing its patent portfolio against technology companies that have independently researched, developed and commercialized similar technology. Such patent assertion companies typically do not practice the patented technology at all, but merely expend their energies in drafting claims in their pending continuation patent applications to claim for themselves successful products independently developed by others. Their business model is very different from that of independent inventors and universities that work to place in the hands of the public products that are not already in the marketplace by partnering with industry to commercialize their patented inventions, typically providing substantial know-how to implement their invention and related technology.

Remedies, as opposed to rights, are typically tailored to the individual circumstances. Injunctions are viewed as extraordinary remedies in other areas of the law and are generally only available upon a demonstration of the inadequacy of money as a remedy – i.e. where the nature of the harm caused to the injured party is such that it cannot be compensated for with money. Even though in Section 283 of the Patent Act Congress appears to have applied the same traditional four part test for the availability of injunctive relief as applies in other areas of the law, the courts appear to ignore this Congressional mandate by creating an attenuated version of the test for patent cases. It is easy to see how in many instances damages would not be an adequate remedy in a patent case, but this should not make it an essentially irrebutable presumption. Where a patentee's business depends on excluding others from using its invention, money would probably not be an adequate remedy. However, an entity whose business is granting non-exclusive licenses has by its nature relied on a business model built on an inclusive, rather than exclusive, use of the technology by others. Such a patentee has no bona fide need to exclude and can be adequately compensated with money. And to be clear, we are not suggesting that such a patentee does not get any remedy. The issue is not whether they get a remedy, but what is the appropriate remedy. In such cases, the proper remedy is monetary relief rather than injunctive.

Some argue that this impacts a patentee's ability to choose its licensees. The reality is that once a patentee has made the decision to grant a non-exclusive license, as opposed to an exclusive one, a patentee is not generally selective about its licensees. Unlike copyright or trade marks, patents tend to cover broad ideas (rather than narrow implementations), and the quality of the implementation of a broad patented idea would

rarely reflect negatively on the patentee. Certainly, it would be unusual to find a patent assertion company that was selective about its licensees. The standard non-exclusive licensing business model in our industry is simple - maximize revenue by maximizing the number of licensees. A monetary award, rather than injunctive relief, should not impact on the patentee's ability to acquire other licensees. Indeed, because courts can award enhanced damages and must award *at least* a reasonable royalty, it is difficult to see how it could promote innovation by enabling a patentee that is not engaged in putting technology into the public's hands to shut down one that is, solely to enable the patentee to extort more than a reasonable royalty. The argument frequently heard that patentees need an injunction to avoid courts imposing their views of a reasonable royalty is specious. Courts award damages in every other area of law, and injunctions in those areas are not issued as a matter of course simply because the litigant might have a different view as to the appropriate amount of the award.

One final point on injunctive relief: even if Congress concludes that damages are an inadequate remedy for patentees engaged in the business of granting non-exclusive licensees generally, injunctions should not be generally available to patent assertion companies. The activities of patent assertion companies are inherently at odds with the objectives of patent law. If every patentee decided to avoid the costs and risk inherent in going into business and instead waited for someone else to come up with the same idea and implement it and then charge the second company to stay in business – the costs of the patent system would soon outweigh its benefits. The patent assertion model is not the business model of independent inventors and universities seeking to introduce new technology to the market by licensing their technology to third parties for its

commercialization. The patent assertion business model requires that the invention already be in the marketplace, else there is literally no one for them to assert the patents against. This business model effectively results in consumers paying twice for innovation – first for the real and substantial independent research and development costs incurred by the alleged infringer and second for the royalties paid to the patentee so that the alleged infringer can use that independently developed technology. There are additional economic costs because the royalties paid by the alleged infringer are not available for research and development or investment in capital infrastructure that might bring prices down. These costs can be significant and may even threaten the ongoing availability of a product or viability of a company, as there is no limit on the amount that the patentee can seek in compensation for the use of its patent – and no incentive for the patentee to limit its demands to an amount reflecting the value of its invention. Congress should take steps to ensure that Courts properly apply the traditional test for injunctive relief in patent cases it mandated in Section 283, and do so in light of the specific Constitutional objective that patents must promote the useful arts.

Willfulness

A finding of willful infringement entitles a patentee to an award of up to treble damages. The standards by which willful infringement is established must also be considered. Does it further the Constitutional objectives of the patent system to place the entire burden of determining whether there is an infringement of a patent on an alleged infringer, as is currently the case? Recent case law suggests that a patentee need only provide notice of a patent to a defendant to establish willful infringement. Under recent

case law, patentees apparently are not required to make a clear claim of infringement, or to support their allegations of infringement in order to successfully allege willful infringement. This means that, with the cost of the stamp to deliver a vague letter mentioning its patents to a company, patentees can impose on that company costs easily exceeding tens of thousands of dollars to acquire legal opinions as to the validity and infringement of any patents provided. The patentee does not have to lift a finger to determine whether there is infringement, yet they can impose substantial costs on a targeted defendant to seek legal opinions that meet the rigorous requirements that case law requires for those opinions to be deemed competent.

In the NTP case, NTP mass-mailed letters to 47 companies, including RIM in January 2000. RIM responded with a letter to NTP asking for additional information about its patents. NTP claims never to have received the letter, and made no further effort to contact RIM until NTP filed suit. Nonetheless, RIM was found liable for willful infringement based on what RIM did or did not do after receiving NTP's letter. The fact that the patent owner took no interest and forwarded no claim charts or otherwise showed there was an infringement simply did not matter. A recent case in the Court of Appeals for the Federal Circuit further suggests that, even if NTP had acknowledged receipt of RIM's letter, it would have no obligation to respond to inquiries or to provide support for its claims of infringement in order for it to obtain enhanced damages for willfulness. Thus, even though a patent owner does not deem the potential infringement worthy of investing time and money to do a proper infringement analysis and may never even bring a claim of infringement, the targeted defendant must do so or risk treble damages and the brand of "willful infringer."

To illustrate the economic costs inherent in this bias towards patentees, one need only consider the NTP case. With 1920 claims in the NTP patents, each of the 47 companies would likely have to spend at least \$200,000 for a legal opinion of invalidity and/or non-infringement. Thus, for about \$19 in postage, a single patentee like NTP can require 47 companies to divert over \$9 million from other industry endeavors to obtain legal opinions regarding NTP's patents. Although it is currently rare for that many claims to be asserted, it is common for companies to receive dozens of such letters each year and to spend several hundreds of thousands or more each year on external legal opinions alone (not including the salaries and overhead for those that deal with these issues).

It seems outrageous that companies must invest this sort of money in formal legal opinions as a result of vaguely crafted patent notice letters where the patentee has determined it is not worth its time or money to provide even a basic explanation as to why there may be infringement.

Relation of Compensation to Value of Patented Invention

Without any restriction on the amount of compensation a patentee is entitled to for its patented invention, there are a number of circumstances in which, rather than promoting the useful Arts, patents can result in a reduction in the technology available to consumers or at least a significant increase in its price.

One such instance is where the royalty rate for a particular patent fails to take into account that a single product requires patent licenses with multiple technology companies covering hundreds of patents. For example, the royalty rate determined by the jury at

trial in the NTP case was 5.7% of the gross revenue on RIM's handsets, software and services. Considered in isolation 5.7% may not seem an onerous royalty. However, were each of our existing patent licensors to be entitled to this same 5.7%, neither RIM nor any other technology company could afford to bring the product to market.

Similarly, significant economic and social costs can result from permitting a patentee to recover damages not only on the revenue of a party supplying products that directly or indirectly infringe a patent, but also on bona fide third party products or services used in combination with these products where those third party products or services would not themselves directly or contributorily infringe the patents. For example, there is a growing tendency for patentees with patents covering, for example, a small component of a handheld or a handheld software application, to seek royalties based not only on revenue generated by the handheld manufacturer's products, but on carrier network service revenue as well. These types of patents likely add no innovation to the wireless carrier network, which essentially acts as a pipe to deliver data from the handheld. The carrier's business model requires it to make services available to a wide range of products with no real depth of technical knowledge about these products. If in fact the handheld component or software application does infringe a patent, in these circumstances the carrier might well look to the supplier to indemnify it for any resulting damages. If those damages are calculated based upon not only the manufacturer's revenue, but the revenue from carriers' services as well, the manufacturer may be required to pay damages on money it has never received, and the total damages may exceed its total revenue for the infringing product. This is not only inconsistent with industry patent licensing practices; it simply is not economically feasible.

A patent system that affords patentees ready access to compensation reflecting the value of their patents would seem better suited to achieve both protection for the patentee and the promotion of the useful Arts. RIM encourages Congress to provide guidance to the Courts and certainty to industry to achieve this end.

Conclusion

Mr. Chairman, thank you again for the opportunity to appear before you today. I hope that my testimony has been helpful to you and Members of the Subcommittee as you consider reforms to the patent U.S. patent system. If I can be of any further assistance to you with this very important work, I am at your service. I will be pleased to take any questions you may have.

